Lendlease Construction (Scotland) Limited

(formerly Lend Lease Construction (Scotland) Limited)

Strategic report, directors' report and financial statements

For the year ended 30 June 2016

Registered number 89468

Strategic report, Directors' report and financial statements

Contents

Strategic report

Lendlease Construction (Scotland) Limited is the primary trading entity for the construction business of Lendlease in Scotland. The Company is a wholly owned subsidiary of Lendlease Construction Holdings (Europe) Limited and is part of the Lendlease Corporation group, a company listed on the Australian Securities Exchange.

Business review

The UK construction market continued to grow in 2015/16, with strong activity in the London residential and commercial market supporting growth. Outside of London there is considerable variability by region and sector.

Against this backdrop the Company has continued to pursue its strategy of selective bidding in targeted key sectors and markets where Lendlease is able to differentiate its offering to clients who understand the Lendlease value proposition. This strategic decision together with a tight control on operational costs has led to a stabilisation in gross profit margin percentage.

2016 was a challenging year for the company, with both turnover and gross profit down on 2015, due to a reduction in the number of live projects. While the company remains committed to Scotland and there are several opportunities being considered and advanced, the current market is challenging and the company has been careful to strike the right balance between risk and reward, resulting in some opportunities not being converted.

The net loss after tax was £1.4m for the year, down on a profit of £1.9m for the prior year, on lower volume and gross margin.

Outlook

Following the referendum vote to leave the European Union, there is significant uncertainty with most forecasts predicting a slowdown in growth in the short and medium term. It is likely that some projects may be postponed or cancelled, as funding becomes harder to access and investors and purchasers delay decisions. Not withstanding this the Company enters into the year with a strong external pipeline.

The pipeline of work for 2016 and beyond remains strong with several opportunities currently in progress. Key projects secured for 2016 and beyond are Hungate, a residential development in York and Hub West framework.

The directors expect margins to remain modest as a result of market competition and supply chain cost inflation, which is occurring as activity levels increase. We continue to exercise strict commercial criteria to our selective bidding, combined with disciplined cost control.

Risks and uncertainties

The Company takes a prudent approach to risk; risk management is embedded in the organisation with different types of risk requiring different levels and types of management response.

Although many of the risk factors influencing the business are macroeconomic, others are particular to our operations. The section below highlights some of the risks and uncertainties that affect the Company as a whole, although it is not intended to be an extensive analysis of all such risks that exist.

Strategic report *(continued)*

Risk area	Impact	Mitigation
Political, economic, social and regulatory risk	The Company operates in a competitive, cyclical industry and changes in the economy, government policy and regulations - for example planning policy or taxation - could impact the Company's operations.	Through the annual business planning cycle the directors review and evaluate the economic climate, long-term industry trends, key value drivers and competitor activity, which is used to determine the strategy and business plan. The validity of this is regularly reviewed. We aim to maintain a balanced portfolio of projects in terms of sectors, clients and contract risk profile to mitigate against unforeseen changes. We aim to build long-term relationships and consult regularly with stakeholders, including government departments, local authorities and regulatory bodies.
Health, safety & environment	Through our activities we could cause harm to employees, suppliers, clients, members of the public or the environment, which could lead to injuries, financial loss or damage to the Company's reputation.	Please refer to the safety section of the Strategic Report.
Conversion of new work	Failure to secure enough new work or projects with an inappropriate risk/reward profile, could impact the Company's profitability and its reputation.	The Company has a well established and disciplined approach to work winning, which is managed through its Project Conversion Process (PCP). Business-wide limits of authority are applied to ensure contracts are reviewed at the appropriate level and regular tender reviews are held to understand the risk profile pre-contract.
Operational and project delivery	The Company delivers complex construction projects. Failure to deliver on time, to budget and to the right quality could result in financial loss or reputational damage.	Mitigation starts pre-contract through the PCP, ensuring an appropriate risk/reward profile. Once on site, each project is closely monitored through the Project in Delivery process (PID), with regular project reviews encompassing progress against set Key Performance Indicators (KPIs), risk mitigation strategy, stakeholder relationships and appropriate actions.
Human resources	Inability to recruit, develop and retain key staff could affect ability to deliver projects.	The senior management team undertakes strategic resource planning and monitors employee levels regularly. Recruitment procedures and total remuneration packages are reviewed and benchmarked on a national and international basis to ensure we attract talented people. The Company runs a number of training and development programmes and focuses on employee engagement to improve retention rates. Succession plans are in place for key positions.
Counterparty risk	Non-delivery by our supply chain partners or clients through sub-standard performance or financial failure could impact the Company's ability to deliver projects on time, on budget and to the right quality.	Supply chain risk is mitigated through a robust selection process, including reviews to assess financial and operational viability and past performance. The list of preferred suppliers is regularly reviewed to ensure compliance with Lend Lease standards including Health & Safety, applicable laws and industry regulations. Policies and procedures are also in place to ensure that we understand our clients, their needs and credit risk profile pre-contract.
Cashflow and liquidity management	Inability to fund obligations, secure bonding capacity and comply with our banking/credit facility terms could impact the Company's liquidity and restrict growth.	The Company has robust processes to ensure cash is regularly reviewed against expected KPIs and forecasts. The Company operates within the Lendlease Europe liquidity pool and uses the experienced Lendlease Europe Treasury department to assist in managing liquidity and availability of bonding and credit facilities.
Compliance and conduct	Poor conduct or acts of fraud, bribery, corruption or anticompetitive behaviour could adversely impact the Company's reputation and result in financial loss.	The Company has clear principles and values concerning the way in which it does business. Employees go through an induction to ensure awareness of the Company's expectations and employee's obligations including Employee Conduct, Bribery & Corruption, Sustainability and the Group's Global Minimum Requirements. Awareness programmes are used to refresh and update learning post-induction.

Key Performance Indicators

KPI	Definition	Objective/Importance
Accident frequency rate	Numbers of accidents (reportable, lost-time and potential incidents divided by the total number of hours worked	To assess the performance of business in its target of reducing all accidents and to enable appropriate action to be taken where necessary.
Profit per head	Gross profit divided by the average number of full-time equivalent staff	A measure of productivity and profitability to ensure that our skilled staff are effectively utilised.
New work secured revenue and GPM	Total contract value and Gross Profit Margin of projects secured and forecast to be secured in the financial period	A key measure of the effectiveness and return on investment of business development and work winning activities.
Backlog revenue and GPM	Total Revenue and GPM secured in the order book, to be delivered and recognised in future reporting periods	A key measure of the effectiveness and return on investment of business development and work winning activities. Used to develop financial projections and business plans around resource requirements and structure.
Project in delivery (PID) risk score	Each project is measured against a standard set of KPIs including programme, design, procurement, safety, profitability and cash	To assist all levels of management with the early identification of project issues/risks and to enable business-wide performance and portfolio risk to be monitored and appropriate action to be taken.
Unbilled work in progress	Work done by Lendlease and not yet billed to the client	To ensure cash is collected on a timely basis and mitigate the risk of non-payment. This also alerts the senior management team for potential risks on projects.
Aged debtors	Total debtors not due and overdue by age	To ensure cash is collected on a timely basis and mitigate the risk of non-payment. This also alerts the senior management team for potential risks on projects.
Aged creditors	Total creditors not due and overdue by age	To ensure timely payments to our supply chain partners and early identification and resolution of issues.

Safety

Health & Safety stands at the heart of our business and shapes our values, directs our decision-making and is the focus of all our business planning.

Our company vision is simple; a culture where any incident or injury is unacceptable. This is reinforced by ensuring that safety always comes first in the decisions we make at all levels at which we operate. We believe that every incident is preventable and that all our employees share an obligation to actively integrate Incident & Injury Free into every aspect of their work. This is called the Lend Lease Way for Safety and we apply it wherever we have a presence.

A dedicated Safety Leadership Team leads the business to ensure this commitment of an Incident & Injury Free vision is embedded and sustained throughout our people, supply chain, consultants and clients.

We operate within defined Global Minimum Requirements (GMR's) to better identify, assess and manage risks. We have established accountability for the implementation of these standards and set Key Performance Indicators at all management levels to measure current gaps and pinpoint further opportunities for improvement. We have developed a set of tools to ensure we generate, share and incorporate best practice.

Sustainability

Sustainability is fundamental to the ethos of Lendlease both as a company and how it does business. At its core is a belief that we enrich the lives of people by creating the best places. Places where people prefer to spend their time, places that contribute to a community, are healthier places, more productive, more skilled, more profitable; quite simply places that physically and mentally improve the quality of people's lives.

We deliver this through excellence in the built environment, by creating places for people that enhance the wellbeing of the environment, society and the economy that sustains us, meet our needs for the future and will determine our future prosperity.

To help deliver this vision as a company, we have developed a framework to ensure that all aspects of sustainability are addressed in a cohesive manner. Utilising short term targets to achieve long term aspirations, all projects track environmental and social KPIs through monthly progress reports, which in turn are reported to the regional leadership team to assess the region's performance as a whole. Lendlease utilises solid business processes such as published, and continually updated governing Sustainability Position Statements, and a fully integrated Environmental Management System that ensures high standards for sustainability wherever our business has a presence.

This year there has been a significant shift in the profile and stage of our construction projects compared to last year with many long term projects entering key phases of energy and water use. We continue to implement energy, water and waste initiatives across our portfolio to reduce our construction environmental footprint. Our timber reporting has similarly been affected with an increased performance from 87% certified FSC timber to 91% across the calendar year. This is due to the prior year having a higher use of Cross Laminated Timber (CLT), a positive advancement for the company in terms of innovation and modern methods of construction, but at a cost of our FSC target of 100% due to only PEFC certified timber (the next best certification level) being available.

Our social sustainability performance across the construction business however has seen significant elevation in engagement with our Lendlease community and staff. New programmes focusing around health and wellbeing have resulted in bringing life-saving services into reach of our staff across offices and sites.

We believe that continual performance in sustainability will be a differentiator for our business, will drive innovation and create a more resilient company that generates value for our customers, motivates our employees, contributes to our communities and delivers long-term value for our shareholders and those who invest with us. Doing what's smart and right in creating a more prosperous future for people.

Employees

Disabled persons
It is the Company's policy to give full and fair consideration to applications for employment made by disabled persons having regard to their aptitudes and abilities. The Company also uses its best endeavours to provide continuing employment for employees who are disabled whilst the Company employs them and, where appropriate, provides facilities for training and retraining and opportunities for career development and promotion.

Employees and their involvement in group business
The Company is a wholly owned subsidiary of Lendlease Construction Holdings (Europe) Limited and part of the Lendlease group of companies with the ultimate parent being Lendlease Corporation, an Australian property development, investment and construction business.

Employees benefit from a bonus scheme that enables them to identify more closely with the group's performance and to share common objectives with shareholders. This spirit of involvement in the group is encouraged through access to a variety of media, and staff at all levels are regularly advised of the group's and individual companies' achievements.

Employees *(continued)*

The methods and media used to do this include:

- "Pulse", the group's intranet site, which is updated with daily news on the activities taking place within the group, both regionally and globally, and regularly publishes detailed information on Lendlease Construction (Scotland) Limited and Lendlease

- "The Word", Lendlease Europe publication.

- "Global Update", annual employee update meetings.

- "Coffee talks" – at which directors and senior leaders meet with small groups of employees to brief them on aspects of the business and answer their questions.

- Notice board displays of matters of interest and importance relating to the Company and to the group, such as health and safety, vision and values and financial matters.

All employees are encouraged to show an awareness of the objectives of the Company and the standards of performance required in relation to the specific activities in which they are engaged.

Lendlease Corporation's core values are published widely. They encourage a culture of involvement and performance. The six core values are: 'Respect', 'Integrity', 'Innovation', 'Collaboration', 'Trust' and 'Excellence'.

Safety is a critical issue both on site and in our offices. With this in mind, Incident & Injury Free was launched in 2002 to encourage people to consider the safety and welfare of others as well as themselves. It is a global programme that sets out Lendlease's commitment to a safe working environment and involves everyone who works on our sites and in our offices, promoting the need for behavioural change and consistent safety standards. We continue to actively promote this commitment.

By order of the board

N. Martin

N Martin
Director

Directors' report

The directors present their directors' report and the audited financial statements for the year ended 30 June 2016.

Principal activities

The Company's principal activity is as a provider of project solutions in the construction industry in the United Kingdom.

The Company is a limited liability company incorporated and domiciled in the United Kingdom. The address of its registered office is 33 Bothwell Street, Glasgow, Lanarkshire G2 6NL.

On the 1 July 2016, the Company changed its name from Lend Lease Construction (Scotland) Limited to Lendlease Construction (Scotland) Limited.

These financial statements were authorised for issue by the Board of Directors on 17 October 2016

Dividend

The directors do not recommend a final dividend for the year (2015: £nil).

Directors and directors' interests

The directors who served during the year are listed below:

M Heyes (resigned 12 October 2016)
N Martin
R Allport (resigned 6 April 2016)
L Gledhill (resigned 31 August 2015)
T Peach (resigned 23 September 2015)
G Ray (appointed 2 September 15)
S Gorski (appointed 7 June 2016)

None of the directors who held office at the end of the year held any disclosable interest in group undertakings as recorded in the register of directors' interests.

Political donations

The Company made no political contributions during the year (2015: £nil).

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' report *(continued)*

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

By order of the board

N Martin
Director

17 October 2016

Statement of directors' responsibilities in respect of the strategic report, directors' report and the financial statements

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LENDLEASE CONSTRUCTION (SCOTLAND) LIMITED

We have audited the financial statements of Lendlease Construction (Scotland) Limited for the year ended 30 June 2016 set out on pages 10 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Stephen Wardell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

18 October 2016

Statement of Profit or Loss and Comprehensive Income
for the year ended 30 June 2016

	Notes	**2016**	2015
		£000	£000
Revenue		**46,454**	112,351
Cost of sales		**(44,017)**	(105,739)
Gross profit		**2,437**	6,612
Administrative expenses		**(4,005)**	(4,146)
Operating (loss)/profit		**(1,568)**	2,466
Finance income	*7*	**61**	24
(Loss)/profit before taxation	*3*	**(1,507)**	2,490
Taxation	*8*	**145**	(561)
(Loss)/profit for the year attributable to the equity shareholders of the company		**(1,362)**	1,929
Other comprehensive (loss)/profit		-	-
Total comprehensive (loss)/income for the year		**(1,362)**	1,929

The notes to and forming part of the financial statements are set out on pages 14-27

Statement of Financial Position
at 30 June 2016

	Notes	2016	2015
		£000	£000
Non-current assets			
Deferred tax assets	9	**915**	950
		915	950
Current assets			
Cash and cash equivalents		**-**	9,716
Trade and other receivables	10	**22,490**	16,508
		22,490	26,224
Total assets		**23,405**	27,174
Current liabilities			
Cash and cash equivalents		**(137)**	-
Trade and other payables	12	**(23,978)**	(26,522)
Total liabilities		**(24,115)**	(26,522)
Net (liabilities)/assets		**(710)**	652
Equity			
Share capital	13	**-**	-
Retained earnings		**(710)**	652
Total equity		**(710)**	652

These financial statements of Lendlease Construction (Scotland) Limited, registered number 89468, were approved by the board of directors on 17 October 2016 and were signed on its behalf by:

N. Martin

N Martin
Director

The notes to and forming part of the financial statements are set out on pages 14-27

Statement of Changes in Equity
for the year ended 30 June 2016

	Notes	Ordinary share capital £000	Retained earnings £000	Total equity £000
Balance at 30 June 2014		-	(1,277)	(1,277)
Total comprehensive income for the period		-	1,929	1,929
Balance at 30 June 2015		**-**	**652**	**652**
Total comprehensive loss for the period		-	(1,362)	(1,362)
Balance at 30 June 2016		**-**	**(710)**	**(710)**

The notes to and forming part of the financial statements are set out on pages 14-27

Statement of Cash Flows
for the year ended 30 June 2016

	Notes	2016 £000	2015 £000
Cash flows from operating activities			
(Loss)/profit for the year		**(1,362)**	1,929
Adjustments for:			
Taxation	8	**(145)**	561
Income tax received		**-**	3,065
Finance income	7	**(61)**	(24)
		(1,568)	5,531
Changes in working capital:			
(Increase)/Decrease in trade and other receivables		**(4,588)**	1,859
(Increase)/Decrease in amounts due from related parties		**(1,214)**	31,383
Decrease in trade and other payables		**(7,492)**	(29,599)
Decrease in amounts due to related parties		**(1,868)**	(10,530)
Increase in accruals and other liabilities		**6,816**	962
Finance Income	7	**61**	24
Net cash used in operating activities		**(9,853)**	(370)
Cash flows from investing activities		**-**	-
Net cash generated from investing activities		**-**	-
Cash flows from financing activities		**-**	-
Net cash used in financing activities		**-**	-
Net decrease in cash and cash equivalents		**(9,853)**	(370)
Cash and cash equivalents at beginning of year		**9,716**	10,086
Cash and cash equivalents at end of year		**(137)**	9,716

The notes to and forming part of the financial statements are set out on pages 14-27

Notes to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS").

The Company is exempt by virtue of section 400 of the Companies Act 2006 and IAS 27 – "Consolidated and Separate Financial Statements" from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on the funds provided by Lendlease Construction (Europe) Limited. Lendlease Construction (Europe) Limited has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will not call for settlement of amounts owing where to do so would place the Company in an insolvent position. As with any company placing reliance on the other Group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result in the basis of preparation being inappropriate.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of value added tax.

Sales of goods are recognised when goods are delivered and title has passed. Revenue from construction contracts is recognised in accordance with the Company's accounting policy on construction contracts.

Construction contracts

Where the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent that contract costs incurred are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, revenue and cost are recognised over the period of the contract. The Company does not consider that the outcome of a construction contract can be reliably determined until it is at least 20% complete. Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Company uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the actual contract costs incurred up to the Statement of Financial Position date as a percentage of the total estimated costs for each contract. Provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers are included within trade and other receivables. The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

1 **Accounting policies** *(continued)*

Post retirement

a) Defined Benefit Plan

The Company participates in a group pension scheme, which is closed to new members, providing benefits based on final pensionable pay. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The assets of the scheme are held separately from those of the Company.

The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19 'Employee benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Statement of Profit or Loss and Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period.

Full disclosure of the Pension accounting in the Lend Lease UK Pension Scheme is provided in the financial statement of the immediate parent company Lendlease Construction Holdings (Europe) Limited as at 30 June 2016.

b) Defined Contribution Plan

For defined contribution plans, the Company pays contributions to publicly or privately administered superannuation/pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the Statement of Profit or Loss and Comprehensive Income in the periods during which related services are rendered by the employees. Prepaid contributions are recognised as an asset to the extent that cash refund or a reduction in the future payments is available.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Profit or Loss and Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to The Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the period of the lease. Lease incentives received are spread over the lease term.

1 **Accounting policies** *(continued)*

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in The Statement of Profit or Loss and Other Comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

All exchange differences arising in respect of foreign operations are taken to equity through the Translation reserve. When a foreign operation is sold, such exchange differences are recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of the gain or loss on sale.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

All receivables are regularly reviewed and a provision for impairment of trade receivables is established when there is objective evidence that all amounts may not be collectible according to the original terms of the sales transaction.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank.

New Accounting Standards and Interpretations Not Yet Adopted

The following Adopted IFRSs have been issued but have not been applied in these financial statements. The effect of these Adopted IFRSs on these financial statements have not yet been determined:

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 14 Regulatory Deferral Accounts (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date to be confirmed).
- Annual Improvements to IFRSs – 2010-2012 Cycle (effective date to be confirmed)
- Annual Improvements to IFRSs – 2011-2013 Cycle (effective date to be confirmed)
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date to be confirmed)
- IFRS 16 Leases (effective date 1 January 2019)

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Critical judgements in applying the entity's accounting policies

The preparation of financial statements under IFRS requires management to make estimates and assumptions that affect amounts recognised for assets and liabilities at the Statement of Financial Position date and the amounts of revenue and expenses incurred during the reporting period. Actual outcomes may therefore differ from these estimates and assumptions.

2 Segmental information

The Company's turnover and results arose from, and the Company's net (liabilities)/assets are deployed in, providing project solutions in the construction industry in the United Kingdom. Lendlease Construction (Scotland) Limited has identified the one operating segment based on the internal reports that are reviewed and used by the Managing Director (the chief operating decision maker) in assessing the performance and determining the allocation of resources.

Geographical segments

Revenue is attributable to geographic locations based on the location of customers. The Company currently operates solely within one geographical segment (United Kingdom), and accordingly no geographical segment analysis is provided.

3 Profit before taxation

	2016	2015
	£000	£000
Profit before taxation is stated after charging/(crediting):		
Rentals payable under operating leases:		
Land and other buildings	**79**	79
Staff costs (note 5)	**5,834**	7,449
Management charge from Lendlease Construction (Europe) Limited	**1,125**	2,460

The remuneration of the auditors for the current and prior accounting years of £14,650 (2015: £14,500) has been borne by a fellow group undertaking.

The management charges are incurred in relation to central reporting services provided by Lendlease Construction (Europe) Limited.

4 Directors' remuneration

Any qualifying services in respect of the Company are considered to be incidental and part of these directors' overall management responsibilities within Lendlease Construction (Europe) Limited. Their remuneration for the current year and prior year was paid by and included in the financial statements of these companies.

Notes to the financial statements *(continued)*

5 Staff numbers and costs

The average number of employees engaged in the activity of providing project solutions in the construction industry was 85 (2015: 121). The aggregate payroll costs of these employees were as follows:

	2016	2015
	£000	£000
Wages and salaries	4,812	6,119
Social security costs	509	687
Other pension costs (note 19)	513	643
	5,834	7,449

6 Administrative expenses

Other costs such as overheads are borne by a fellow group undertaking which recovered its costs by way of a management charge to the Company. The management charge was £1,125,480 (2015: £2,459,977).

7 Finance income

	2016	2015
	£000	£000
Bank and other interest	61	24

8 Taxation

a) Tax on profit on ordinary activities

	2016	2015
	£000	£000
Current tax:		
UK corporation tax	184	-
Adjustments in respect of previous periods	(5)	-
Total current tax credit	179	-
Deferred tax:		
Origination and reversal of timing differences	-	(507)
Effect of future change in tax rate	(49)	18
Temporary differences	-	-
Adjustment in respect of previous periods	15	(72)
Deferred tax charge	(35)	(561)
Tax credit/(charge) from continuing operations	145	(561)

Notes to the financial statements *(continued)*

8 Taxation *(continued)*

b) Reconciliation of the total tax charge

The tax credit for the year on the profit on ordinary activities is lower than the notional tax charge on those profits calculated at the UK corporation tax rate of 20% (2015: 20.75%). The differences are explained below:

	2016	2015
	£000	£000
(Loss)/Profit on ordinary activities before tax	**(1,507)**	2,490
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.75%)	**301**	(517)
Effects of:		
Non-deductible expenses	**(3)**	(4)
Adjustments in respect of previous periods	**10**	(63)
Permanent difference on change of tax rate	**(48)**	18
Provision not recognised / (recouped)	**(114)**	-
Effects of group and other reliefs	-	5
Total tax credit/(charge) in the statement of comprehensive income (note 8 (a))	**145**	(561)

c) Factors that may affect future tax charges

The effective rate of taxation will vary as a result of any dividends paid by shareholders, overseas tax rates and the utilisation of tax losses brought forward. Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly. Accordingly, the company's profits for the accounting period are taxed at an effective rate of 20% (2015: 20.75%).

Notes to the financial statements *(continued)*

9 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**64**	69	**-**	-	**64**	69
Tax loss carry-forwards	**851**	881	**-**	-	**851**	881
Net tax assets	**915**	950	**-**	-	**915**	950

Movement in deferred tax during the year

	1 July 2015	Recognised in income	Recognised in equity	Disposals	30 June 2016
	£000	£000	£000	£000	£000
Property, plant and equipment	69	(5)	-	-	64
Tax loss carry-forwards	881	(30)	-	-	851
	950	(35)	-	-	915

Movement in deferred tax during the prior year

	1 July 2014	Recognised in income	Recognised in equity	Disposals	30 June 2015
	£000	£000	£000	£000	£000
Property, plant and equipment	59	10	-	-	69
Tax value of loss carry-forwards	1,452	(571)	-	-	881
	1,511	(561)	-	-	950

Notes to the financial statements *(continued)*

10 Trade and other receivables

	2016	2015
	£000	£000
Trade receivables	**13**	107
Amounts due from related parties	**3,630**	2,416
Corporate tax receivable	**178**	-
Other debtors	**8,594**	12,566
Construction contract work in progress	**10,075**	1,419
	22,490	16,508

The ageing of trade receivables at the reporting date was:

	2016 Gross	**2016 Impairment**	2015 Gross	2015 Impairment
	£000	**£000**	£000	£000
Not past due	**-**	**-**	-	-
Past due 0-90 days	**-**	**-**	94	-
More than 90 days	**26**	**(13)**	26	(13)
	26	**(13)**	120	(13)

The directors believe that an impairment allowance is necessary in respect of trade receivables past due more than 90 days of £13,136 (2015: £13,136).

11 Construction contracts

	2016	2015
	£000	£000
Contracts in progress at the balance sheet date:		
- amounts due from contract customers (note 10)	**10,075**	1,419
- current amounts due to contract customers (note 12)	**(2,746)**	(8,591)
Net amounts due to contract	**7,329**	(7,172)

During the year ended 30 June 2016, all revenue recognised in The Statement of Profit or Loss and Other Comprehensive Income is derived from construction contracts.

At 30 June 2016, retentions held by customers for contract work amounted to £6,683,742 (2015: £7,579,565). Contract advances amounted to £4,987,000(2015: £6,995,134).

Notes to the financial statements *(continued)*

12 Trade and other payables

	2016	2015
	£000	£000
Payments received on account for construction work (note 11)	**2,746**	8,591
Trade payables	**462**	2,109
Amounts due to related parties	**1,460**	3,328
Project cost accruals	**10,167**	2,604
Provision for income tax	**-**	1841
Other creditors	**9,143**	8,049
	23,978	26,522

Amounts due to related parties are unsecured, have no fixed repayment terms and bear no interest.

13 Called up share capital

	2016	2015
	£	£
Allotted, called up and fully paid		
Ordinary shares of £1 each	**100**	100

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Notes to the financial statements *(continued)*

14 Commitments

Operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and Buildings	
	2016	2015
	£000	£000
Operating leases which expire:		
Within one year	**147**	79
Between one and five years	**429**	309
	576	388

15 Contingent liabilities

There are claims outstanding which arise under contracts carried out by the Company in the ordinary course of business. It is not possible to predict with any certainty the results of these claims but the directors believe, taking into account counter-claims, claims against third parties and provisions in the accounts, that the outcome will not have a material effect on the Company's financial position.

16 Financing arrangements and financial instruments

Foreign currency

Foreign currency risk is the risk that the value of a financial commitment, a recognised asset or liability will fluctuate due to changes in foreign currency exchange rates. The Lendlease Group policy is to manage currency risk so as to minimise any adverse impact of this risk and associated costs on the results.

The Company operates predominantly within the UK such that its exposure to currency risk is considered to be minimal with only a small proportion of items both in terms of volume and value transacted in a foreign currency. As a result, there are no hedges in place with respect to any potential currency exposure.

The company does not have any material exposure to foreign currency.

Price risk

The Company does not have significant equity investments or investments in commodities and does not consider itself to be exposed to any significant equity, commodity or other price risk.

Commodities are procured in the open market with fixed price contracts, transferring the pricing risk to the subcontractor. The maximum exposure is held between being awarded lump sum contracts and transferring the risk. This is mitigated by the lump sums being covered by trade prices or having sufficient inflation contingency.

Notes to the financial statements *(continued)*

16 Financing arrangements and financial instruments *(continued)*

Credit risk

Credit risk represents the risk that a counterparty will not be able to complete its obligations in respect of a financial instrument, resulting in a financial loss to the Company.

The Company operates predominantly in the UK construction market and has no significant concentrations of credit risk on either a geographic or industry specific basis. It has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Trade receivables are monitored on a daily and weekly basis to minimise the Company's exposure to credit risk, in particular, with reference to the Company's debtors days which for the current year was 16 days (2015: 9 days).

Credit risk is also managed by limiting the aggregate exposure to any one individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed and adjusted as necessary. Accordingly, the possibility of material loss arising in the event of non-performance by counterparties is considered to be unlikely.

The maximum exposure to credit risk at the Statement of Financial Position date on financial assets recognised in the Statement of Financial Position equals the carrying amount, net of any impairment.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cash flow associated with the instrument will fluctuate due to changes in the market interest rates. No interest has been incurred on any financial instruments held by the Company during the year, therefore, the interest rate risk is not considered to be material. Interest earned on cash and cash equivalents is minimal and is not considered to be material.

Liquidity risk

Liquidity risk is the risk of having insufficient funds to settle financial liabilities as and when they fall due. This includes having insufficient levels of committed credit facilities. Liquidity risk is reduced through prudent cash management which ensures sufficient levels of cash are maintained to meet working capital requirements.

The following are the contractual cash flow maturities of financial liabilities as at 30 June 2016:

30 June 2016	Carrying Amount	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Non-derivative financial liabilities						
Trade and other payables	21,208	20,641	-	536	31	-
Total	**21,208**	**20,641**	**-**	**536**	**31**	**-**

Notes to the financial statements *(continued)*

16 Financing arrangements and financial instruments *(continued)*

Liquidity risk *(Continued)*

30 June 2015	Carrying Amount	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Non-derivative financial liabilities						
Trade and other payables	13,238	9,321	3,078	709	130	-
Total	13,238	9,321	3,078	709	130	-

Net fair values of assets and liabilities

All financial instruments recognised on the Statement of Financial Position, including those instruments carried at amortised cost, are recognised at amounts that represent a reasonable approximation of fair value.

Capital management

The Company assesses its Capital Management model as part of the broader Lendlease Group Board's strategic plan. When investing capital, the Company's objective is to deliver strong shareholder returns and to continue to generate high levels of liquid assets in line with the Lendlease Corporation capital management goals.

The capital structure of the Company can be changed by equity issues, dividend payments and dividend reinvestments.

The Company actively manages the working capital on a daily basis with periodic narrative and recommendations prepared for senior management on movements, risk, exceptions and tracking against business targets. The Company operates under a strict regime of contract billings and debtor payment cycle to maximise liquidity.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Notes to the financial statements *(continued)*

17 Pension scheme

The Company participates in a group wide pension scheme (The Lend Lease UK Pension Scheme) providing benefits based on final pensionable pay, with the sponsor being Lendlease Construction Holdings (Europe) Limited.

There is no contractual agreement or stated policy for charging the net defined benefit cost for the group wide pension scheme to individual group entities. Contributions in respect of defined benefit schemes are calculated as a percentage, agreed based on actuarial advice, of the pensionable salaries of employees. The cost of providing pensions is charged to the profit and loss account over the periods benefiting from the services of employees.

As required by IAS 19 'Employee benefits', the amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Further detailed information in respect of the Lend Lease UK Pension Scheme can be found in the financial statements of Lendlease Construction Holdings (Europe) Limited.

For the year ended 30 June 2016 the total Company contributions paid to the Defined Contribution Section of the Lend Lease UK Pension Scheme were £512,954 (2015: £643,000). All contributions to the Defined Benefit Section of the Lend Lease UK Pension Scheme during 2016 were made by Lendlease Construction Holdings (Europe) Limited.

18 Related party transactions

The following transactions were carried out with related parties:

a) Sale of goods and services:

	2016	2015
	£000	£000
Recharge of services to:		
- Other group companies	-	-
	-	-

Goods are sold based on the price lists in force and terms that would be available to third parties. Recharges of services are negotiated with related parties on a cost-plus basis, allowing a margin reflecting standard commercial terms.

b) Purchases of goods and services

	2016	2015
	£000	£000
Recharge of services by:		
- The ultimate parent	**1,125**	2,460
- Other group companies	-	2
	1,125	2,462

Goods and services are purchased from other group companies under normal commercial terms and conditions. Management services are recharged from the immediate, intermediate and ultimate parent on a cost-plus basis, allowing a margin reflecting standard commercial terms.

Notes to the financial statements *(continued)*

18 Related party transactions (continued)

c) Key management/directors compensation

Refer to note 4.

d) Year-end balances

	2016	2015
	£000	£000
Receivables from related parties (note 10)		
- Other group companies		
Lendlease Europe Finance Plc	2,774	-
Lendlease Europe Holdings Limited	3	-
Lendlease Construction (Europe) Limted	853	2,416
	3,630	2,416
Payables to related parties (note 12)		
- Other group companies		
Lendlease Europe Limited	335	-
Lendlease Construction (Europe) Limted	1,125	3,328
	1,460	3,328

The receivables from related parties arise mainly from sale transactions and are due 1 month after the date of sales. The receivables are unsecured in nature and bear no interest.

The payables due from purchase transactions are due 1 month after the date of purchase. The payables bear no interest.

19 Ultimate parent undertaking and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of Lendlease Construction Holdings (Europe) Limited, which is registered in England and Wales. Its ultimate parent undertaking is Lendlease Corporation Limited, which is incorporated in Australia.

The largest group in which the results of the Company are consolidated is that headed by Lend Lease Corporation Limited. The consolidated financial statements of this group may be obtained from Level 14, Tower Three, International Towers Sydney, Exchange Place, 300 Barangaroo Avenue, Barangaroo NSW 2000 or from its website at www.lendlease.com.

The smallest group in which the financial statements of the Company are consolidated is that headed by Lendlease Europe Holdings Limited. The consolidated financial statements of this group may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff.

20 Subsequent events

There has been no event or circumstance since the end of the year to the date of this report that would significantly affect the Company.